

2022 Consolidated Financial Report

Foresters Life
Insurance Company

Year ended
December 31, 2022

Consolidated Financial Statements and Notes - Table of Contents

	Page #
Management Statement On Responsibility For Financial Reporting	2
Independent Auditors' Report	3
Appointed Actuary's Report	6
Consolidated Statement of Comprehensive Income (Loss)	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Description of business	11
Note 1 Significant Accounting Policies	11
Note 2 Accounting and Reporting Changes	21
Note 3 Invested Assets	25
Note 4 Investments for Account of Segregated Fund Unit Holders	29
Note 5 Other Assets	30
Note 6 Employee Benefit Plans	31
Note 7 Intangible Assets	31
Note 8 Financial Risk Management	31
Note 9 Other Liabilities	38
Note 10 Insurance Contract Liabilities and Reinsurance Assets	38
Note 11 Investment Contract Liabilities	42
Note 12 Capital Management	42
Note 13 Premiums	44
Note 14 Fee Revenue and Other Operating Income	44
Note 15 Benefits	44
Note 16 Operating Expenses	45
Note 17 Income Taxes	45
Note 18 Segmented Information	47
Note 19 Related Party Transactions	48
Note 20 Contractual Obligations and Commitments	49
Note 21 Contingent Liabilities	51
Note 22 Principal Subsidiaries	52
Note 23 Comparative Information	52

MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements have been prepared by management, who are responsible for their integrity, objectivity and reliability. International Financial Reporting Standards ("IFRS") including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") have been applied and management has exercised its judgment and made best estimates where deemed appropriate. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Foresters Life Insurance Company (the "Company") within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored by an internal audit department.

The Board of Directors, acting through the Audit and Compliance Committee, which comprises directors who are not officers or employees of the Company, oversees management responsibility for the financial reporting and internal control system.

The Appointed Actuary is appointed by the Board of Directors to carry out an annual valuation of liabilities for future benefits. In performing this valuation, the Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of insurance contract liabilities are in accordance with accepted actuarial practice and requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of insurance and investment contract liabilities at the balance sheet date to meet all policyholders' obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the amount of insurance and investment contract liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the Company's capital adequacy under several adverse but plausible conditions using the relevant Standards of Practice of the Canadian Institute of Actuaries. In carrying out her work, the Appointed Actuary may consider the work of the internal audit department and KPMG LLP Chartered Professional Accountants ("Auditors"). The Appointed Actuary's Report outlines the scope of the valuation and the Actuary's opinion.

The Company engages external Auditors to express an opinion on the financial statements. The responsibility of these Auditors is to carry out an independent and objective audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and report regarding the fairness of presentation of the Company's consolidated financial statements in accordance with IFRS, including the accounting requirements of OSFI. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and her report on the insurance and investment contract liabilities. The Auditors' report outlines the scope of their audit and their opinion.



Louis Gagnon
Chief Executive Officer



Alvin Sharma
Chief Financial Officer

Toronto, Ontario, Canada
February 14, 2023



KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Foresters Life Insurance Company

Opinion

We have audited the consolidated financial statements of Foresters Life Insurance Company (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Page 3

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 14, 2023

APPOINTED ACTUARY'S REPORT

To the policyholders and shareholder of Foresters Life Insurance Company

I have valued the policy liabilities and reinsurance recoverables of Foresters Life Insurance Company for its consolidated statement of financial position as at December 31, 2022 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.



Trudy Engel

Fellow, Canadian Institute of Actuaries

Toronto, Ontario, Canada

February 14, 2023

Foresters Life Insurance Company
Consolidated Statement of Comprehensive Income (Loss)
For the year ended December 31
(in thousands of Canadian dollars)

	Note	2022	2021
REVENUE			
Gross premiums	13	\$ 286,466	\$ 268,029
Ceded premiums	13	<u>(230,836)</u>	<u>(345,633)</u>
Net Premiums		55,630	(77,604)
Net Investment Income			
Interest and dividends (net)	3	30,007	37,470
Net realized gains (losses)	3	(28,527)	31,154
Net change in unrealized gains (losses) on fair value through profit and loss investments	3	<u>(107,061)</u>	<u>(81,615)</u>
Total Investment Income (Loss)		(105,581)	(12,991)
Fee revenue	14	149	142
Other operating income	14	<u>1,498</u>	<u>1,502</u>
TOTAL REVENUE		(48,304)	(88,951)
POLICY HOLDER BENEFITS & EXPENSES			
Gross benefits	15	181,752	172,376
Ceded benefits	15	(127,290)	(68,283)
Gross change in insurance contract liabilities	10	(287,090)	74,077
Ceded change in insurance contract liabilities	10	103,734	(379,960)
Dividends		1,842	1,975
Commissions		67,960	79,300
Operating expenses	16	64,925	65,928
Ceded commissions and operating expenses	16	<u>(26,466)</u>	<u>72,490</u>
TOTAL BENEFITS & EXPENSES		(20,633)	17,903
Income (Loss) before income taxes		(27,671)	(106,854)
Income Taxes			
Current	17	7,557	(18,241)
Deferred	17	<u>(19,305)</u>	<u>(2,514)</u>
Total Income Taxes		(11,748)	(20,755)
NET INCOME (LOSS)		(15,923)	(86,099)
OTHER COMPREHENSIVE INCOME (LOSS)			
Remeasurement on employee benefit plans net of income tax expense of \$50 (2021: \$15)		<u>141</u>	<u>38</u>
Total items that will not be reclassified to net income		141	38
Net change in unrealized gains (losses) on available-for-sale assets net of income tax recovery of \$12,344 (2021: \$783)		<u>(34,764)</u>	<u>(1,986)</u>
Reclassification of net realized (losses) gains on available-for-sale assets, net of income tax expense (recovery) of \$3,378 (2021: (\$559)), to net income		<u>9,513</u>	<u>(1,417)</u>
Total items that are or may be reclassified subsequently to net income		(25,251)	(3,403)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		(25,110)	(3,365)
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>\$ (41,033)</u>	<u>\$ (89,464)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Foresters Life Insurance Company
Consolidated Statement of Financial Position
For the year ended December 31
(in thousands of Canadian dollars)

	Note	2022	2021
ASSETS			
Invested Assets	3		
Cash and short-term securities		\$ 40,842	\$ 28,826
Bonds		621,145	846,966
Equities		66,732	95,944
Other invested assets		76,510	58,403
Loans to policyholders		13,904	13,462
Total Invested Assets		<u>819,133</u>	<u>1,043,601</u>
Reinsurance assets	10	664,345	768,080
Accrued investment income		4,357	4,730
Current income taxes	17	2,433	25,489
Deferred tax assets	17	14,778	—
Due from reinsurers		35,726	27,205
Other assets	5	6,971	6,328
Intangible assets	7	7,474	5,101
		<u>736,084</u>	<u>836,933</u>
Net investments for accounts of segregated fund unit holders	4	13,032	15,349
TOTAL ASSETS		<u>\$ 1,568,249</u>	<u>\$ 1,895,883</u>
LIABILITIES			
Insurance contract liabilities	10	1,089,059	1,376,148
Investment contract liabilities	11	14,071	14,353
Benefits payable and provision for unreported claims		63,640	55,161
Deferred tax liabilities	17	—	4,477
Due to reinsurers	19	35,068	92,512
Other liabilities	9	40,936	34,212
Employee benefit obligations	6	265	460
		<u>1,243,039</u>	<u>1,577,323</u>
Liabilities for accounts of segregated fund unit holders	4	13,032	15,349
TOTAL LIABILITIES		<u>\$ 1,256,071</u>	<u>\$ 1,592,672</u>
EQUITY			
Participating policyholders' equity		1,241	1,191
Shareholder's equity			
Common shares	12	50,000	50,000
Contributed surplus	12	296,964	246,964
Retained earnings		(22,618)	(6,645)
Accumulated other comprehensive income		(13,409)	11,701
		<u>310,937</u>	<u>302,020</u>
TOTAL EQUITY		<u>312,178</u>	<u>303,211</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 1,568,249</u>	<u>\$ 1,895,883</u>

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:



Louis Gagnon
Chief Executive Officer



Daniel John Fortin
Chair of the Board

Foresters Life Insurance Company
Consolidated Statement of Changes in Equity
For the year ended December 31
(in thousands of Canadian dollars)

	Shareholder's equity							Total equity
	Participating Policyholders	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income – Unrealized gains (losses) on available-for-sale assets	Accumulated other comprehensive income – Remeasurement gains (losses) on employee benefit plans	Total shareholder's equity	
Balance as at December 31, 2021	\$ 1,191	\$ 50,000	\$ 246,964	\$ (6,645)	\$ 13,238	\$ (1,537)	\$ 302,020	\$303,211
Total net income (loss)	50	—	—	(15,973)	—	—	(15,973)	(15,923)
Other comprehensive income (loss)								
Pre-tax balance	—	—	—	—	(47,108)	191	(46,917)	(46,917)
Reclassification of net realized gains (losses) on available for sale assets	—	—	—	—	12,891	—	12,891	12,891
Income tax recovery (expense)	—	—	—	—	8,966	(50)	8,916	8,916
Total Other Comprehensive Income (Loss) for the year	—	—	—	—	(25,251)	141	(25,110)	(25,110)
Total Comprehensive Income (Loss)	50	—	—	(15,973)	(25,251)	141	(41,083)	(41,033)
Contribution of capital	—	—	50,000	—	—	—	50,000	50,000
Dividends	—	—	—	—	—	—	—	—
Balance as at December 31, 2022	\$ 1,241	\$ 50,000	\$ 296,964	\$ (22,618)	\$ (12,013)	\$ (1,396)	\$ 310,937	\$312,178
Balance as at December 31, 2020	\$ 1,168	\$ 50,000	\$ 161,964	\$ 164,477	\$ 16,641	\$ (1,575)	\$ 391,507	\$392,675
Total net income (loss)	23	—	—	(86,122)	—	—	(86,122)	(86,099)
Other comprehensive income (loss)								
Pre-tax balance	—	—	—	—	(2,769)	53	(2,716)	(2,716)
Reclassification of net realized gains (losses) on available for sale assets	—	—	—	—	678	—	678	678
Income tax recovery (expense)	—	—	—	—	(1,312)	(15)	(1,327)	(1,327)
Total other comprehensive income (loss)	—	—	—	—	(3,403)	38	(3,365)	(3,365)
Total Comprehensive Income (Loss)	23	—	—	(86,122)	(3,403)	38	(89,487)	(89,464)
Contribution of capital	—	—	85,000	—	—	—	85,000	85,000
Dividends	\$ —	\$ —	\$ —	\$ (85,000)	\$ —	\$ —	\$ (85,000)	\$ (85,000)
Balance as at December 31, 2021	\$ 1,191	\$ 50,000	\$ 246,964	\$ (6,645)	\$ 13,238	\$ (1,537)	\$ 302,020	\$303,211

The accompanying notes are an integral part of these consolidated financial statements.

Foresters Life Insurance Company
Consolidated Statement of Cash Flows
For the years ended December 31
(in thousands of Canadian dollars)

	2022	2021
	\$	\$
Cash flow from operating activities		
Total net income (loss) per statement of comprehensive income (loss)	\$ (15,923)	\$ (86,099)
Items not affecting cash:		
Depreciation and amortization	1,391	1,082
Net increase (decrease) in insurance contract liabilities	(287,090)	74,077
Net (increase) decrease in reinsurance assets	103,734	(379,960)
Net realized and unrealized losses on invested assets	135,588	50,461
Amortization of premiums and discounts on bonds	(1,962)	376
Deferred income tax recovery	(19,305)	(2,514)
Net change in other assets and other liabilities	(24,024)	44,629
Net cash from (used in) operating activities	<u>(107,591)</u>	<u>(297,948)</u>
Cash flow from investing activities		
Investments sold or matured:		
Bonds	636,380	1,112,435
Equities	21,316	54,236
Other invested assets	2,334	68,525
Loans to policyholders	1,698	2,062
Investments acquired:		
Bonds	(559,058)	(904,771)
Equities	(9,185)	(10,256)
Other invested assets	(22,500)	(28,770)
Loans to policyholders	(1,378)	(601)
Net cash from (used in) investing activities	<u>69,607</u>	<u>292,860</u>
Cash flow from financing activities		
Contributed surplus	50,000	85,000
Dividends paid	—	(85,000)
Net cash from (used in) financing activities	<u>50,000</u>	<u>—</u>
Net increase (decrease) in cash and short-term securities	12,016	(5,088)
Cash and short-term securities – Beginning of year	<u>28,826</u>	<u>33,914</u>
Cash and short-term securities – End of year	<u>\$ 40,842</u>	<u>\$ 28,826</u>
Cash and short-term securities consist of:		
Cash	\$ 33,911	\$ 18,826
Short-term securities	6,931	10,000
	<u>\$ 40,842</u>	<u>\$ 28,826</u>

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

DESCRIPTION OF BUSINESS

Foresters Life Insurance Company (the "Company") is a stock life insurance company and a wholly owned subsidiary of The Independent Order of Foresters ("Foresters Financial") since demutualization on April 2, 2008. The Company, including its subsidiary, offers products, including life insurance, accident and sickness insurance, and group annuities which are delivered across Canada and investment management services.

The Company commenced business in Canada in 1898. It is incorporated under the Insurance Companies Act - Canada (the "Act") and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Company's registered office is located at 789 Don Mills Road, Toronto, Ontario M3C 1T9 Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

1.1 Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements also comply with the accounting requirements of OSFI.

These consolidated financial statements were authorized for issue by the Board of Directors on February 14, 2023.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position:

- Financial assets at fair value through profit and loss ("FVTPL"), and available-for-sale ("AFS") financial assets are measured at fair value;
- Reinsurance assets and insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM")

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition applies to all assets and liabilities measured at fair value except for impairment provisions using value in use to determine the recoverable amount of the asset.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates, judgments and underlying assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. The areas where the use of estimates and assumptions have the most significant effect are: the measurement and classification of insurance and investment contract liabilities, the calculation of fair value of financial instruments, determination of employee benefit liabilities, income taxes, provisions for unreported claims, determining the key assumptions underlying recoverable amounts for purposes of impairment testing and the determination of contingencies.

In early 2020, the outbreak of the COVID-19 virus and ensuing global pandemic along with the economic downturn have impacted the results of the Company. The negative effects include but are not limited to negative mortality experience and increases in insurance claims. There is also uncertainty in mortality emergence which the Company is monitoring. In addition, various macroeconomic conditions are also impacting the Company, including significant volatility in equity markets, periods of increased inflation and higher interest rates set by central banking authorities in response. These factors can introduce additional uncertainty around estimates, assumptions and judgements used in preparing these consolidated financial statements.

The use of estimates, judgments and assumptions is discussed in more detail in the relevant notes to these consolidated financial statements.

1.2 Basis of consolidation

The consolidated financial statements include the results of operations and the financial position of all entities controlled by either the Company or its subsidiaries. Control exists when the Company or one of its subsidiaries has power to direct the activities that significantly affect returns, exposure or rights to variable returns based on the subsidiary's performance and the ability to use its power to affect returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align with the policies of the group. Intra-group transactions are eliminated on consolidation. The Company's principal subsidiaries are listed in note 22.

1.3 Segmented reporting

Operating segments have been identified based on internal management reports which are used by senior management to assess performance and make decisions. The Company has one operating segment and a surplus segment.

The operating segment sells life insurance, accident and sickness insurance and group annuities.

The surplus segment holds surplus investments above those required to satisfy management's internal capital targets for each segment.

1.4 Foreign currency

Foreign currency transactions are converted to the appropriate functional currency on the date of the transaction. The Company's foreign currency transactions are minimal.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

1.5 Invested assets

At initial recognition, invested assets are designated or classified as FVTPL, AFS or loans and receivables as follows:

	FVTPL assets	AFS assets	Loans and receivables
Short-term securities			X
Bonds	X	X	
Equities	X		
Other invested assets	X	X	
Loans to policyholders			X

Invested assets can be classified as FVTPL assets if they are acquired principally for the purpose of selling or repurchasing in the near term.

Invested assets supporting insurance and investment contract liabilities are designated as FVTPL in order to reduce measurement or recognition inconsistencies that would otherwise arise as a result of measuring assets and the corresponding liabilities on different bases.

Invested assets supporting surplus are classified as AFS assets.

a) Cash and short-term securities

Cash is comprised of cash balances and overnight deposits. Short-term securities are carried at amortized cost and include highly liquid investments with original maturities of more than three months, but less than one year.

The carrying value of cash and short-term securities approximates their fair value.

b) Bonds

Bonds are designated as either FVTPL or AFS and are initially recorded at fair value on the trade date.

The fair value of publicly traded bonds is determined using quoted market mid prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. The Company does not have any bonds for which the fair value is determined using a valuation technique based on assumptions that are not supported by observable market prices or rates.

Interest income is recorded as interest and dividends on the consolidated statement of comprehensive income (loss) on an accrual basis using the effective interest method and realized gains and losses on the sale of bonds are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income (loss).

Changes in the fair value of FVTPL bonds are recorded as net change in unrealized gains (losses) on fair value through profit and loss investments, a component of net income on the consolidated statement of comprehensive income (loss).

Changes in the fair value of AFS bonds are recorded as net change in unrealized gains (losses) on available-for-sale assets, a component of other comprehensive income ("OCI") on the consolidated statement of comprehensive income (loss).

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

c) Equities

Equities are designated as FVTPL and are initially recorded at fair value on the trade date.

The fair value of publicly traded equities is determined using quoted market closing prices. For non-publicly traded equities, fair value is estimated on the basis of dealer quotes or recent transactions of similar investments. Transaction costs on FVTPL equities are expensed.

Dividend income is recorded as interest and dividends on the ex-dividend date and realized gains and losses on the sale of equities are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income (loss).

Changes in the fair value of FVTPL equities are recorded as net change in unrealized gains (losses) on fair value through profit and loss investments, a component of net income on the consolidated statement of comprehensive income (loss).

d) Other Invested Assets

Limited partnerships

Limited partnerships support insurance contract liabilities and surplus. The assets are classified as FVTPL and FVOCI and are recorded at fair value. The Company does not have joint control or any significant influence over these partnerships. Fair value is based on the net asset value of the investment where the Company is a limited partner. Changes in fair value are recorded as net change in unrealized gains (losses) on fair value through profit and loss and through other comprehensive income. Realized gains or losses on sale are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income (loss).

Seed money investment in segregated funds

Seed money represents the Company's initial investment in its segregated funds and is classified as AFS and measured at fair value. Fair value is based on the net asset value of the segregated investment fund. Changes in fair value are recorded as net change in unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive income (loss).

e) Loans to policyholders

Loans to policyholders are classified as loans and receivables and are carried at their unpaid balance. These loans are fully secured by the cash surrender value of the policies on which the respective loans are made.

f) Derecognition

The Company derecognizes an invested asset only when the contractual rights to the cash flows from the instrument expire, or when substantially all of the risks and rewards of ownership of the asset are transferred.

g) Invested asset impairments

Invested assets other than FVTPL assets are assessed individually for impairment on a quarterly basis. The Company considers various factors in assessing impairments, including but not limited to, the financial condition and near-term prospects of the issuer, specific adverse conditions affecting an industry or region, a significant and prolonged decline in fair value below the cost of an asset, bankruptcy or default of the issuer, and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

FVTPL assets are carried at fair value and all realized and unrealized change in gains and losses are recorded in net income, therefore no further impairment decision is necessary. Additionally, insurance contract liabilities include a margin to account for asset impairments which will reduce future cash flows.

AFS assets are carried at fair value and unrealized change in gains and losses are recorded in OCI and accumulated in accumulated other comprehensive income ("AOCI"). When an AFS asset is identified as impaired, the net loss in AOCI is reclassified to net realized gains (losses), a component of net income on the consolidated statement of comprehensive income (loss). Any further reduction in value subsequent to the initial recognition of impairment is also included in net income in the period in which the change occurs.

An impairment loss on AFS bonds and loans and receivables is reversed if there is objective evidence of a permanent recovery in the value of the asset based on an event occurring after the impairment loss was initially recognized. Such a reversal is reflected in net income.

1.6 Other assets

Other assets consist primarily of prepayments, accounts receivable, deferred sales charges and equipment.

Equipment

Equipment consists of computer equipment which is carried at historical cost less accumulated depreciation and impairment losses. When the carrying amount of the asset is greater than the recoverable amount, it is considered to be impaired and is written down through net income.

Depreciation

Depreciation is recognized in operating expenses on the consolidated statement of comprehensive income (loss) on a straight-line basis over the estimated useful lives of the asset as follows:

Asset type	Useful life
Computer equipment	3 - 5 years

Under IFRS, componentization is required when parts of equipment have different useful lives and each component is accounted for as a separate item. Depreciation methods, useful lives and residual values are reviewed at each year end and adjusted if appropriate. Any changes in estimates are accounted for in the current period.

Impairment

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than reinsurance assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment loss on equipment is recognized in net income.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

1.7 Intangible assets

a) Recognition and measurement

Intangible assets

i) Acquired intangibles

Intangible assets acquired through business combinations are comprised of asset management contracts and customer relationships. The initial cost of intangible assets acquired in a business combination is fair value at the date of acquisition. The fair value of acquired identifiable intangible assets is based on an analysis of discounted cash flows. After the date of acquisition, these intangibles are carried at cost less accumulated amortization and impairment losses.

ii) Computer software

Computer software is carried at cost less accumulated amortization and impairment losses.

b) Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognized as operating expenses on the consolidated statement of comprehensive income (loss).

The estimated useful lives for current and comparative periods are as follows:

Asset type	Useful life
Software	1 – 5 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

c) Impairment

Intangibles with indefinite useful lives are reviewed annually for impairment. Intangibles with finite useful lives are reviewed only if there is an indicator for impairment. Impairment losses are recognized immediately in net income.

1.8 Insurance and investment contracts

Product contracts are classified as insurance or investment contracts based on the level of insurance and financial risk the Company accepts from the policyholder.

a) Insurance contract liabilities

Insurance contract liabilities include life, health and annuity lines of business. Insurance contracts are those contracts that transfer significant insurance risk to the Company. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of an insurance contract for specified future events, such as death or disability, that may adversely affect the policyholder and whose amount and timing are uncertain. Insurance contracts are shown as insurance contract liabilities on the consolidated statement of financial position.

Insurance contract liabilities are calculated using CALM which is based on accepted actuarial practices according to standards established by the Canadian Institute of Actuaries and the requirements of OSFI. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment. Valuation assumptions are based

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

on current best estimate assumptions plus a margin for uncertainty for each material contingency. Any change in insurance contract liabilities is recorded in the gross change in insurance contract liabilities on the consolidated statement of comprehensive income (loss).

Insurance contract liabilities less reinsurance assets represent an estimate of the amount, together with future premiums and investment income, which will be sufficient to pay future benefits, dividends, commissions and expenses on in-force insurance and annuity policies.

b) Reinsurance assets

The Company enters into reinsurance arrangements with reinsurers in order to limit its exposure to significant losses, to manage capital and to reduce volatility of financial results. Maximum limits have been established for the retention of risks associated with life insurance policies. Risks in excess of these limits are reinsured with well-established, highly rated reinsurers. The Company enters into two types of reinsurance arrangements:

- quota share reinsurance arrangements, whereby the Company retains a percentage of the risk associated with life insurance policies up to maximum retention limits; and
- excess of loss reinsurance arrangements, whereby risk in excess of established retention limits are ceded to reinsurers.

Reinsurance transactions do not relieve the Company of its primary obligation to policyholders. Losses could result if a reinsurer fails to honour its obligations.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance arrangement and with accepted actuarial practice in Canada. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Impairment occurs when there is objective evidence that the Company will not be able to collect amounts due under the terms of the contract. Any impairment loss is recorded in net income on the consolidated statement of comprehensive income (loss).

Premiums for reinsurance ceded are presented as ceded premiums, reinsurance recoveries on claims incurred are recorded as ceded benefits, and commissions and expense related to reinsured contracts are recorded as ceded commissions and operating expenses on the consolidated statement of comprehensive income (loss). The net amount due from reinsurers with respect to ceded premiums, paid claims and expenses is recorded either as an amount receivable or payable from reinsurers and included in other assets or other liabilities, respectively, on the consolidated statement of financial position.

c) Investment contract liabilities

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to the Company. Investment contracts comprise various amounts on deposit.

Investment contracts are recorded at fair value less any directly attributable transaction costs. Deposits to and withdrawals from investment contracts increase or decrease the liability, respectively.

d) Segregated funds

The value of segregated fund contracts is directly linked to the fair value of the underlying investments supporting these contracts. The unit holder bears the risks and rewards of the performance of these investments.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

The Company presents segregated fund net assets, which are in the legal name and title of the Company but are held on behalf of unit holders, as a single line item in the consolidated statement of financial position.

Market value movement in the underlying segregated fund net assets along with any investment income earned and expenses incurred are directly attributed to unit holders.

The Company does not present these amounts as revenue on the consolidated statement of comprehensive income (loss); however, they are disclosed in note 4.

Deposits to and withdrawals from segregated funds increase or decrease the liability, respectively. For services provided to unit holders, Foresters receives investment management and guarantee fees which are directly charged by the segregated funds to unit holders. This revenue is recorded as fee revenue on the consolidated statement of comprehensive income (loss).

Investment income and changes in the fair value of the segregated fund investments are offset by a corresponding change in the segregated fund liabilities.

Net investments for account of segregated fund unit holders

These investments are carried at fair value. Fair value is determined using quoted market values unless quoted market values are not available, in which case, estimated fair values are determined by the Company, based on dealer quotes or recent transactions of similar investments.

Liabilities for account of segregated fund unit holders

These liabilities are measured at fair value reflecting the fair value of the underlying net assets. Segregated fund products provide death and maturity benefit guarantees to the unit holder. The liability for these guarantees is recorded under insurance contract liabilities.

e) Derecognition

The liabilities under insurance and investment contracts are derecognized when the obligation is discharged or cancelled.

f) Participating policyholders

The amount recognized for participating policyholders' surplus represents the amount belonging to policyholders relating to their interest. The amounts relating to the contractual participation rights are recognized in insurance contract liabilities.

1.9 Other liabilities

Other liabilities primarily consist of accounts payable and accrued liabilities, due to reinsurers, payroll and other liabilities.

1.10 Income taxes

The tax expense for the year comprises current and deferred taxes. Tax is usually recognized as an expense or income in the consolidated statement of comprehensive income (loss), except when it relates to an item included in OCI or directly in surplus, in which case, tax is recognized in OCI or surplus, respectively.

The current tax expense (recovery) is based on taxable income (loss) for the year under local tax regulations and the enacted or substantively enacted tax rate for the year for each taxable entity and any adjustment to tax payable in respect of previous years.

Deferred income taxes are accounted for using the liability method, whereby tax expected to be payable or recoverable is calculated on temporary differences arising between the

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

carrying amounts of assets and liabilities under IFRS and the tax assets and liabilities calculated under the regulations of the relevant tax authority. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Temporary differences, tax losses and tax loss carryforwards are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which these tax assets can be utilized.

The carrying amount of recognized deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset if a legally enforceable right to offset current income tax assets and liabilities exists, and deferred income taxes relate to the same legal entity and the same taxation authority.

1.11 Employee benefits

The Company accrues obligations for certain retirement and other post-employment benefit plans and the related costs.

The Company's net obligation in respect of post retirement benefits is calculated separately for each plan. The cost of post retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and the obligations are determined annually by independent actuaries, using the projected benefit method and management's best estimates of salary projections, retirement ages of employees and other variables, except for the discount rate which is based on market rates.

These plans are not pre-funded. Benefit costs are charged to operating expenses and all actuarial gains and losses are recorded immediately in OCI and on the consolidated statement of changes in equity.

1.12 Revenue recognition

Revenue is recognized as follows, after eliminating intra-group transactions:

a) Insurance contracts

Premiums are recognized as revenue when they come due and collection is reasonably assured. On recognition, the insurance contract liability is calculated with the result that benefits and expenses are matched to premium revenue.

b) Fee revenue and other operating income

Fee revenue includes fees earned from the management of segregated funds. The Company recognizes revenue in the amount it has the right to invoice, as services are provided.

c) Net investment income

Investment income net of investment expenses, realized gains (losses) on the sale of investments and changes in the fair value of FVTPL assets are recorded in net investment income on the consolidated statement of comprehensive income (loss).

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

Changes in the fair value of AFS assets are recognized in OCI on the consolidated statement of comprehensive income (loss).

1.13 Costs related to contracts with customers, excluding insurance contracts

Contract costs on the acquisition of contracts with customers, excluding insurance contracts, consist mainly of incremental commissions and fees paid to intermediaries. These costs are capitalized to the extent that they can be recovered through future expected margins on these contracts and are reviewed for impairment annually.

The Company recognizes contract costs as an expense when incurred if the amortization period of the assets that the Company would have recognized is one year or less.

1.14 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease, if the contract involves the use of an identified asset and conveys the right to control the use of the asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the amount of lease liability, plus or minus adjustments, such as lease incentives received. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company generally uses its incremental borrowing rate as the discount rate.

Subsequently, the right-of-use asset is depreciated to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the carrying amount of the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured to reflect any lease modifications or reassessments.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.15 Contingent liabilities

Contingent liabilities are recognized as liabilities on the consolidated statement of financial position when it is probable that the Company will incur a future expense and the amount can be reliably measured. If the event resulting in a future obligation is less than probable but greater than remote or, the amount cannot be reliably estimated, the contingency is disclosed in the notes to the consolidated financial statements.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

2. ACCOUNTING AND REPORTING CHANGES

2.1 New and Amended International Financial Reporting Standards to be Adopted in 2023 or Later

a) IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* ("IFRS 9"), which replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). This final version includes requirements on: (1) classification and measurement of financial assets and liabilities; (2) impairment of financial assets; and (3) general hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with certain exceptions. IFRS 9 does not require restatement of comparative financial statements. Entities are permitted to restate comparatives as long as hindsight is not applied. The Company has made the decision not to restate comparative period financial information and will recognize any measurement difference between the previous carrying amount and the new carrying amount as of the date of adoption, through an adjustment to opening retained earnings.

In September 2016, the IASB issued amendments to IFRS 4 to allow insurance entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17 (the "deferral approach") to align with the Company's adoption of IFRS 17. In June 2020 the IASB amended IFRS 4 once again to permit the deferral of IFRS 9 adoption to January 1, 2023 to align with the revised effective date of IFRS 17. The Company qualifies and has elected the deferral approach permitted under the amendment. Consequently, the Company will continue to apply IAS 39, the existing financial instrument standard until its expiry.

The adoption of IFRS 9 is not expected to have a material impact on the Company opening balance sheet as of January 1, 2023.

Classification and Measurement

Financial assets will be classified based on the Company's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset, i.e., whether its cash flows represent substantially payments of principal and interest ("SPPI"). Financial assets are classified into one of the following three categories, which determine how it is measured subsequent to initial recognition: amortized cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL"). In addition to the classification tests described above, IFRS 9 also includes an option to irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. The classification and measurement of financial liabilities remain largely unchanged under IFRS 9.

The Company has defined its significant business models and has assessed the cash flow characteristics for all financial assets under the scope of IFRS 9. The Company elects to use the fair value option for assets supporting liabilities and surplus if using the fair value option reduces or eliminates an accounting mismatch. If the fair value option is not feasible to use, assets will be classified at FVOCI. Any assets measured at FVOCI will be subject to the expected credit loss impairment requirements.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

b) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* ("IFRS 17") which is effective for reporting periods beginning on or after January 1, 2021. In June 2020, an amended version of IFRS 17 was released that pushed back the effective date to January 1, 2023. In May 2018 OSFI released an advisory, subsequently revised in September 2020, called "IFRS 17 Transition and Progress Reporting Requirements for Federally Regulated Insurers". The guideline explicitly prohibited early adoption of IFRS 17 by federally regulated insurers before the effective date of January 1, 2023.

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as the Company fulfills the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin ("CSM"). IFRS 17 replaces IFRS 4 and will change the fundamental principles used by the Company for recognizing and measuring insurance contracts. IFRS 17 will also change the presentation and related note disclosures of the Company's financial statements.

Under IFRS 17, insurance contract revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Company expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses. Insurance finance income and expenses are presented separately from insurance revenue and insurance service expenses. Income and expenses from reinsurance contracts held other than finance income and expenses will be presented as a single net amount in profit or loss. Currently, amounts recovered from reinsurers and reinsurance expenses are presented separately.

The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework and a robust implementation plan. A Steering Committee was formed with joint leadership from Finance and Actuarial with representation from IT, project management and Internal Audit. A communication plan including progress reporting protocols was established with regular updates provided to the Steering Committee on key decisions. IFRS 17 overview sessions were held at various levels within the Company, including the Audit and Compliance Committee of the Board of Directors. Semi-annual submissions to OSFI regarding the project's status have also been completed. We have performed a variety of readiness tests including a 'Transition Readiness Assessment' to test our systems and process for the reporting under IFRS 17.

The Company has established a robust process to review, challenge and approve key areas of judgment and assumptions used in selecting economic scenarios and associated probabilities upon the adoption of IFRS 17. Controls surrounding IFRS 17 processes continue to be developed and refined.

As at January 1, 2022, the Company's current estimate of the adoption of IFRS 17, subject to refinement, is there is at least a 10% decrease to equity as a result of the following offsetting drivers:

- Changing from the Canadian Asset Liability Method ("CALM") under IFRS 4 to the discount rate approach required by IFRS 17, including removal of economic margins;
- The deferral of profits previously recognised in equity related to insurance contracts where there is remaining service, called CSM.
- Other changes in the amount of fulfilment cash flows due to changes to projecting cash flows for certain products with investment features, changes in the levels of expenses considered attributable which are projected in fulfilment cash flows.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

The Company is still assessing the impact of IFRS 17 on 2022 net income.

The following is a summary of the new accounting concepts and project status under IFRS 17.

Scope

IFRS 17 introduces scope exemptions for specific types of contracts. The Company does not expect significant change in the scope of insurance contracts between IFRS 4 and IFRS 17.

Level of Aggregation

IFRS 17 requires groups of contracts to be aggregated and measured based on contracts subject to similar risks and managed together, profitability, and contracts issued not more than one year apart. The Company determines contracts subject to similar risks and managed together based on product lines. The Company will cohort its new business using annual cohorts. When an insurance contract is written, it will be assigned a profitability group based on the expected profitability on the date of initial recognition. The level of aggregation does not permit the offsetting of gains and losses between groups of insurance contracts.

Measurement Models

IFRS 17 introduces new measurement models for groups of insurance contracts. Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. Each measurement model provides requirements around how to measure the liability for remaining coverage while the liability for incurred claims is generally measured consistently across the models.

- General measurement model ("GMM"): The GMM measures groups of insurance contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as it fulfills insurance contract obligations, an explicit risk adjustment for non-financial risk and CSM. The CSM represents the unearned profit of a group of insurance contracts and is recognized into income over the coverage period as the Company provides insurance contract services. The Company expects that the GMM will be used for all insurance contracts.
- Variable Fee Approach ("VFA"): The VFA is a modified model for insurance contracts that primarily provide investment related services to the policyholders. This model amends the GMM upon subsequent measurement to reflect the nature of the Company's services being substantially investment related. The Company does not expect to have any insurance contracts that qualify for the VFA approach.
- Future Cash Flows: IFRS 17 requires estimates of future of future cash flows to be discounted to reflect the time value of money and financial risk related to those cash flows, however the methodology for determining the discount rate is not prescribed. Discount rates will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contract. This will represent a difference in practice from the Canadian Asset Liability Method ("CALM") under IFRS 4. The Company has assessed that in Canada there is an observable period for the risk-free rate of 30 years based on the Government of Canada bonds. The ultimate rate will be assessed each year based on market factors and deemed be effective from 70 years onward. The risk-free rate from last liquid point to the ultimate rate will be graded using actuarial techniques. An illiquidity premium will be constructed based on the liquidity characteristics of the respective insurance contracts.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

- **Risk Adjustment:** The measurement of insurance contract liabilities includes a risk adjustment for non-financial risk which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflects the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty that arises from non-financial risk.
- **Onerous Contracts:** IFRS 17 requires the identification of groups of onerous contracts. When onerous contracts are identified, the Company is required to recognize a loss immediately in the statement of profit or loss along with an increase in the insurance contract liability known as a “loss component” to appropriately reflect the timing of losses. The amount of loss from onerous contracts written in a year is a required disclosure. The Company is finalizing its evaluation of onerous contracts initially recognized in 2022 and has established a mechanism for identifying onerous contracts beyond the transition date.
- **Reinsurance Contracts Held:** Reinsurance contracts held will apply the GMM, adapted to reflect the characteristics of a reinsurance contract held, including any risk of non-performance of the reinsurer. For reinsurance held using the GMM, the CSM reflects either a net cost or net gain on purchase of reinsurance instead of unearned profit and if the treaty was in place prior to recognizing underlying direct insurance contracts that are onerous will offset a portion of those losses on initial recognition of those underlying direct insurance contracts.

Transition

The Company expects to apply the full retrospective approach to estimate the opening balance of insurance and reinsurance contract liabilities and assets using the full retrospective approach to the extent practicable. The Company will apply the full retrospective approach to insurance contracts issued and reinsurance contracts held since January 1, 2021. The fair value approach will be applied to all other insurance contracts issued and reinsurance contracts held prior to January 1, 2021. The primary drivers of the impracticability position are related to data and the use of hindsight, consistent with the principles of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

3. INVESTED ASSETS

a) Summary of invested assets

The carrying values and fair values of invested assets are shown as follows:

	FVTPL	AFS	Loans and receivables	Total carrying value	Total fair value
December 31, 2022	\$	\$	\$	\$	\$
Cash, cash equivalents and short-term securities	—	—	40,842	40,842	40,842
Bonds	380,629	240,516	—	621,145	621,145
Equities	44,830	21,902	—	66,732	66,732
Other invested assets	39,046	37,464	—	76,510	76,510
Loans to certificate holders	—	—	13,904	13,904	13,904
Total invested assets	464,505	299,882	54,746	819,133	819,133
Net investments for account of segregated fund unit holders	13,032	—	—	13,032	13,032
Total investments	477,537	299,882	54,746	832,165	832,165
December 31, 2021	\$	\$	\$	\$	\$
Cash, cash equivalents and short-term securities	—	—	28,826	28,826	28,826
Bonds	541,141	305,825	—	846,966	846,966
Equities	61,477	34,467	—	95,944	95,944
Other invested assets	31,572	26,831	—	58,403	58,403
Loans to certificate holders	—	—	13,462	13,462	13,462
Total invested assets	634,190	367,123	42,288	1,043,601	1,043,601
Net investments for account of segregated fund unit holders	15,349	—	—	15,349	15,349
Total investments	649,539	367,123	42,288	1,058,950	1,058,950

b) Fair value hierarchy

The Company follows a fair value hierarchy to categorize the inputs to the valuation techniques used to measure the fair value of financial assets. The three levels of the hierarchy are:

Level 1

Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2

Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar, but not identical, assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable, such as interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, credit risks, and default rates.

Level 3

Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 financial instruments are initially fair valued at their transaction price. After initial measurement, the

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

The underlying investments of the Limited Partnerships are valued using discounted cash flow methodologies, direct capitalization methods, comparable private company transactions and the income approach. Significant unobservable inputs include assumed future market conditions, projected income and expense scenarios, discount rates, terminal EBITDA and exit multiples used in the calculations.

For certain financial assets which are of a short-term nature, the carrying value approximates fair value, and therefore no separate fair value is disclosed. The most significant category for fair value measurement is invested assets and the hierarchy level is based upon the following guidelines:

Bonds including short-term securities

Government bonds and treasury bills (classified as short-term securities) are valued using prices received from external pricing providers (such as dealers, brokers, industry groups, pricing services or regulatory agencies) who generally base the price on quotes received from a number of market participants.

Level 1 corporate bonds listed or quoted in an established over-the-counter market are valued using prices received from external pricing providers who generally consolidate quotes received from a panel of investment dealers into a composite price. As the market becomes less active, the quotes provided by some investment dealers may be based on modeled prices rather than on actual transactions. These sources are based largely on observable market data and, therefore these instruments are treated as Level 2 within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote, the instruments are treated as Level 3.

Other corporate bonds and non-government-based short-term securities such as unquoted bonds, commercial paper ("CP") and certificates of deposit ("CDs") are valued using models. For CP and CDs, the model inputs, such as LIBOR yield curves, foreign exchange rates, volatilities and counterparty spreads comprise observable market data. For unquoted bonds, the model includes credit spreads which are obtained from brokers or estimated internally. The classification of these instruments within the fair value hierarchy will be either Level 2 or Level 3, depending upon the nature of the underlying pricing information used for valuation purposes.

Equity securities

Listed securities are treated as Level 1 within the fair value hierarchy and are valued using prices sourced from the primary exchange or dealer, broker, industry group, pricing service or regulatory agency. The quoted market price is the current closing price.

Unlisted securities are treated as Level 2 within the fair value hierarchy and a valuation technique is used for these instruments with the inputs coming from observable market data.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

The following tables present the invested assets measured at fair value and classified by the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
December 31, 2022	\$	\$	\$	\$
Bonds	—	621,145	—	621,145
Equities	57,183	9,549	—	66,732
Other invested assets	—	26,150	50,360	76,510
Net investments for account of segregated fund unit holders	10,549	2,483	—	13,032
Total	67,732	659,327	50,360	777,419
December 31, 2021	\$	\$	\$	\$
Bonds	—	846,966	—	846,966
Equities	87,705	8,239	—	95,944
Other invested assets	—	7,317	51,086	58,403
Net investments for account of segregated fund unit holders	11,394	3,955	—	15,349
Total	99,099	866,477	51,086	1,016,662

The following table represents the movement in Level 3 invested assets:

	FVTPL		AFS	
	Other invested assets		Other invested assets	
	2022	2021	2022	2021
	\$	\$	\$	\$
Balance, beginning of year	26,953	\$ 95,134	24,133	\$ —
Changes during the year:				
Purchases	—	6	—	24,133
Sales and redemptions	(2,350)	(68,467)	—	—
Net change in unrealized gains (losses)	1,393	280	231	—
Balance, end of year	25,996	26,953	24,364	24,133

There were no material transfers between Level 1, 2 and 3 during 2022 or 2021. The fair market value of level 3 assets includes investments that are impacted by market sensitivities. Assumptions used to assess the market sensitivity of these assets include interest rates and real estate capitalization rates. The following table shows the impact of this analysis on the fair value of the Level 3 assets. The analysis was based on a 1% increase and a 1% decrease in the related assumption. The following table shows the impact of this analysis on the fair value of the related assets at December 31:

	2022		2021	
	1% increase	1% decrease	1% increase	1% decrease
	\$	\$	\$	\$
FVTPL assets:				
Interest rate	(38)	38	(55)	55
Real estate capitalization rates	(4,526)	6,757	(3,912)	5,485
Global infrastructure index	(662)	662	241	(241)

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

c) Other invested assets

Limited partnerships

The Company has investments in limited partnerships which invest in real estate assets, private debt instruments, and equity infrastructure projects. The Company does not have the ability to exercise significant influence over these limited partnerships. The investments support certain insurance contract liabilities and surplus. The assets are classified as FVTPL and AFS and are carried at fair value. The fair value of these investments as at December 31, 2022 was \$50,360 (2021: \$51,086).

d) Impairments

There were no investments that were impaired and therefore required an impairment loss provision in 2022 or 2021. During 2022, the Company did not reverse any impairment losses previously taken that were sold during the year (2021: \$nil).

e) Net investment income

Interest and dividends (net) were derived from the following sources:

	2022				2021			
	FVTPL	AFS	Other	Total	FVTPL	AFS	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income from:								
Short-term securities	—	—	318	318	—	—	9	9
Bonds	16,494	6,753	—	23,247	22,017	6,761	—	28,778
Loans to policyholders	—	—	744	744	—	—	672	672
	16,494	6,753	1,062	24,309	22,017	6,761	681	29,459
Dividend income from equities	2,447	1,324	—	3,771	2,972	1,920	—	4,892
Income from other invested assets	1,499	1,993	—	3,492	4,924	—	—	4,924
Less: Investment expenses	(2,541)	976	—	(1,565)	(1,335)	(470)	—	(1,805)
Net Investment Income	17,899	11,046	1,062	30,007	28,578	8,211	681	37,470

The following table shows the net realized gains (losses) on invested assets during the year:

	2022				2021			
	FVTPL	AFS	Other	Total	FVTPL	AFS	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Bonds	(16,507)	(14,347)	—	(30,854)	26,981	(677)	—	26,304
Equities	383	1,456	—	1,839	6,594	2,653	—	9,247
Other invested assets	488	—	—	488	(4,397)	—	—	(4,397)
Net realized gains (losses)	(15,636)	(12,891)	—	(28,527)	29,178	1,976	—	31,154

The following table shows the net change in unrealized gains (losses) on FVTPL invested assets recorded in net income for the years ended December 31:

	2022	2021
	\$	\$
Bonds	(94,010)	(90,384)
Equities	(13,036)	4,062
Other invested assets	(15)	4,707
Net change in unrealized gains (losses) on FVTPL investments	(107,061)	(81,615)

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

The following table shows the net change in unrealized gains (losses) on AFS invested assets recorded in other comprehensive income for the years ended December 31:

	2022	2021
	\$	\$
Bonds	(25,542)	(8,012)
Equities	(8,307)	2,690
Other invested assets	(368)	577
Net change in unrealized gains (losses) on AFS investments	(34,217)	(4,745)

4. INVESTMENTS FOR ACCOUNT OF SEGREGATED FUND UNIT HOLDERS

a) Segregated fund net assets

The following table shows the breakdown of segregated fund assets by category of asset:

	2022	2021
	\$	\$
Cash and short-term securities	467	25
Equities	9,246	10,106
Mutual fund units	6,033	7,986
Other assets net of liabilities	(27)	(70)
Total net assets	15,719	18,047
Less: Segregated fund seed money investment	(2,687)	(2,698)
Net investments for account of segregated fund unit holders	13,032	15,349

b) Changes in segregated funds

The following table presents the change in investments for accounts of segregated fund unit holders:

	2022	2021
	\$	\$
Balance, beginning of year	15,349	14,204
Additions to the account of the unit holders:		
Deposits received from unit holders	182	891
Investment income	395	330
Net realized gains on sale of investments	1,286	1,695
Net change in unrealized gains on investments	—	1,980
	1,863	4,896
Deductions to the account of the unit holders:		
Amounts withdrawn or transferred by unit holders	1,556	2,681
Management fees and other operating costs	467	494
Net change in unrealized losses on investments	2,168	—
	4,191	3,175
Less: (Gain) Loss on segregated fund seed money investment	11	(576)
Balance, end of year	13,032	15,349

The above change in investments held was offset by an equal change in liabilities for accounts of segregated fund unit holders.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

c) Investment risks associated with segregated funds

Segregated fund net assets may be exposed to a variety of financial and other risks. These risks are primarily mitigated by investment guidelines that are actively monitored by professional and experienced portfolio managers. Investment returns on these products belong to the policyholders; accordingly, the Company does not bear the risk associated with these assets outside of guarantees offered on certain variable annuity products. For information regarding the risks associated with the annuity and segregated funds guarantees see note 8.

d) Risks associated with the Company's interests in segregated funds

The Company is not obligated either contractually or on a constructive basis to provide financial support other than for the segregated funds where the Company ultimately provides support for the guarantee that investors will not receive at maturity an amount less than 75% of the capital invested. The Company has not yet been required or does not currently expect to provide any support under this guarantee.

5. OTHER ASSETS

a) Other assets

Other assets are comprised of the following:

	2022	2021
	\$	\$
Accounts receivable	6,324	5,347
Computer equipment (note 5b)	466	842
Other	181	139
	<u>6,971</u>	<u>6,328</u>

The carrying value of these assets approximates their fair value. Other assets of \$6,505 (2021: \$5,486) will be realized within 12 months from the reporting date.

b) Computer equipment

The following table shows changes in the equipment balance during the year:

	2022	2021
	\$	\$
Net carrying value, beginning of year	842	1,184
Additions	60	92
Depreciation expense	(404)	(434)
Disposals	(32)	—
Net carrying value, end of year	<u>466</u>	<u>842</u>

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

6. EMPLOYEE BENEFIT PLANS

The Company has a post-retirement health benefit plan. Actuarial valuations of the post-retirement benefits are performed periodically for accounting purposes. These valuations are based on a market-related discount rate and management's best estimate assumptions.

The Company measures its accrued benefit obligation as at December 31 of each year.

The post-retirement benefits provided to former employees are unfunded. The discount rates used to value the liabilities are based on long-term bond yields as of the measurement date, which are consistent with the duration of the plan's liabilities.

The discount rate used to value the post-retirement benefits is 5.3% (2021: 3.0%).

Accrued post-retirement benefits obligations are \$265 (2021: \$460). Benefit costs included in general expenses were \$13 (2021: \$11). Actuarial gains (losses) recorded through OCI were \$191 (2021: \$53).

7. INTANGIBLE ASSETS

a) Reconciliation of carrying amount

	Finite useful life - Software	
	2022	2021
	\$	\$
Net carrying value, beginning of year	5,101	3,700
Additions - internally developed	3,328	2,049
Amortization	(955)	(648)
Net carrying value, end of year	<u>7,474</u>	<u>5,101</u>

8. FINANCIAL RISK MANAGEMENT

The Company offers insurance products and services, which subject the organization to a broad range of financial risks. The Company has specific policies in place to manage these risks, such as the enterprise-wide Risk Management Policy, Change Management Policy, Investment Policy, Dividend Policy, Product Pricing Policy, Reinsurance Risk Management Policy and Capital Management Policy, all of which are annually approved by the Board. The Company's goal in managing financial risk is to ensure that the outcomes of activities involving elements of risk are consistent with its objectives and risk appetite, and to maintain an appropriate risk/reward balance while protecting the Company's balance sheet from events that have the potential to impair its financial strength.

The Company's Risk Management Policy sets out the standards of practice related to the governance, identification, measurement, monitoring, control and mitigation of risks. The Company manages risk-taking activities against an overall risk appetite, which defines the amount and type of risks it is willing to assume. The risk appetite reflects the Company's financial condition, risk tolerance and business strategies. Financial risk appetite measures are defined in relation to internal and regulatory capital requirements, liquidity and earnings sensitivities.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

The key financial risks related to financial instruments are credit risk, market risk (interest rate risk and equity market risk), insurance risk and liquidity risk. The following sections describe how the Company manages each of these risks.

a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfill its payment obligations. Worsening or continued poor economic conditions could result in borrower or counterparty defaults or downgrades and could lead to increased provisions or impairments related to the Company's general fund invested assets and an increase in provisions for future credit impairments which are included in insurance contract liabilities.

The Board-approved Investment Policy sets out the policies and procedures to manage credit risk. Specific guidelines have been established to minimize undue concentration of assets in any single geographic area, industry and company, to limit the purchase of fixed income securities to investment-grade assets, and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings.

Asset portfolios are monitored continuously and reviewed regularly with the Risk and Investment Committee of the Board.

Credit risk also arises from reinsurance activities. The inability or unwillingness of reinsurance counterparties to fulfill their contractual obligations related to the liabilities ceded to them could lead to an increase in net liabilities for insurance contracts. The Reinsurance Risk Management Policy sets out the minimum risk rating criteria that all reinsurance counterparties are required to meet. Reinsurance is placed with counterparties that have an AM Best financial strength rating of A- (excellent) or better and concentration of credit risk is managed by following guidelines approved each year by the Board of Directors. Management regularly monitors the creditworthiness of reinsurers to ensure compliance with guidelines.

i) Maximum exposure to credit risk

The Company's maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses.

The Company's maximum credit exposure was as follows:

	2022	2021
	\$	\$
Short-term securities	6,931	10,000
Bonds	621,145	846,966
Other invested assets	76,510	58,403
Loans to policyholders	13,904	13,462
Reinsurance assets	664,345	768,080
Accrued investment income	4,357	4,730
Amounts due from reinsurers	35,726	27,205
Accounts receivable and other assets	6,505	5,486
Maximum exposure to credit risk	1,429,423	1,734,332

ii) Concentration of credit risk

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

The Company establishes enterprise-wide investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Bonds and other fixed-term securities

Investment concentration in any one investee or its related group of companies, except for securities issued by or guaranteed by the U.S., Canadian and certain foreign governments and government agencies, is limited to 5.0% of the bond portfolio. These limits apply to AAA-rated bonds and other fixed-term securities, and are further constrained for lower-rated bonds.

The following table provides details of the carrying value of bonds by industry sector:

	2022			2021		
	FVTPL	AFS	Total	FVTPL	AFS	Total
	\$	\$	\$	\$	\$	\$
Bonds issued or guaranteed by:						
Canadian federal government	18,334	75,725	94,059	38,200	80,166	118,366
Canadian provincial and municipal government	109,141	68,547	177,688	178,876	122,631	301,507
Total government bonds	127,475	144,272	271,747	217,076	202,797	419,873
Corporate bonds by Industry sector:						
Financials	59,729	66,272	126,001	65,128	68,373	133,501
Utilities and energy	85,280	12,444	97,724	108,340	22,155	130,495
Industrials	37,106	3,586	40,692	48,393	3,264	51,657
Communications	21,814	10,158	31,972	33,161	6,776	39,937
Other	29,191	—	29,191	37,818	—	37,818
Consumer staples	15,809	2,198	18,007	27,536	1,865	29,401
Consumer	4,225	1,586	5,811	3,689	595	4,284
Total corporate bonds	253,154	96,244	349,398	324,065	103,028	427,093
	380,629	240,516	621,145	541,141	305,825	846,966

The credit rating of the bond portfolio was as follows:

Bond quality	2022		2021	
	\$	%	\$	%
Investment grade:				
AAA	107,512	17.3	148,081	17.5
AA	171,964	27.7	291,770	34.4
A	224,448	36.2	270,283	32.0
BBB	115,606	18.6	135,013	15.9
BB and below	1,615	0.2	1,819	0.2
Total bonds	621,145	100.0	846,966	100.0

Equities

Investments in common and preferred stocks are limited to 10% and 15% respectively, of the Company's invested assets. 100% of the Company's equity portfolio is invested in publicly listed corporations.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

iii) Impairments

An allowance for losses on AFS bonds and loans and receivables is established when an asset becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of the asset and related investment income. The carrying value of an impaired asset is reduced to its estimated net realizable value at the time of recognition of impairment.

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises two types of risk:

- Interest rate risk
- Equity market risk

i) Interest rate risk

Interest rate risk exists if asset and liability cash flows are not matched and interest rates change, causing a change in the projected asset cash flows or, in some cases, a change in liability cash flows. The Company mitigates its exposure to interest rate risk by utilizing a formal process for managing the matching of assets and liabilities, which involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in that segment.

For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the product liability cash flows or durations. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.

For products with less predictable timing of benefit payments, investments may be made in equities or fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments as described below.

The risk associated with the mismatch in portfolio duration, cash flow and asset prepayment exposure are quantified and reviewed regularly.

Under CALM, projected cash flows from current assets and liabilities, along with future reinvestment rate assumptions, are used to determine insurance contract liabilities. Asset depreciation assumptions are made when projecting future asset cash flows appropriate to each asset class. Testing is performed under several prescribed interest rate scenarios (including increasing and decreasing rates) to make appropriate provision for reinvestment or disinvestment risk.

One method of measuring the interest rate risk is to determine the effect on insurance contract liabilities and surplus of an immediate 1.0% increase or decrease in the level of risk-free interest rates.

For insurance contract liabilities, a 1.0% reduction in interest rates would result in an increase in insurance contract liabilities of approximately \$1,341 (2021: \$1,789) while the effect of a 1.0% increase in interest rates would result in a decrease in insurance contract liabilities of approximately \$2,383 (2021: \$1,478).

Bonds designated as AFS generally do not support insurance contract liabilities. Changes in the fair value of AFS bonds are recorded in OCI and cause a corresponding change in surplus. For AFS bonds, an immediate 1.0% parallel increase in interest rates at December 31, 2022, across the entire yield curve, would result in an estimated after-tax decrease in OCI of \$14,866 (2021: \$19,444). Conversely, an immediate 1.0% parallel decrease in

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

interest rates would result in an estimated after-tax increase in OCI of \$16,811 (2021: \$22,641).

ii) Equity market risk

Some insurance contract liabilities such as products with long duration are supported in part by equities. There will be impacts on these liabilities, with related changes in surplus, as equity market values fluctuate. A 10.0% increase in equity markets would be expected to decrease insurance contract liabilities by approximately \$1,831 (2021: \$2,399). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities by approximately \$2,013 (2021: \$2,486).

c) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behavior and expenses.

The Company sells participating and non-participating insurance and financial investment products. The types of products include life, health and annuity. Each product can have a number of contingencies associated with it, including mortality, lapse and expense risk.

Assumptions are made based on company and industry past experience, current internal data, external market indices and benchmarks, which reflect current observable market prices and other published information, as outlined in the Product Pricing Policy. These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and, therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

To the extent that emerging experience is more favorable than assumed in the measurement of insurance contract liabilities, income will emerge. If emerging experience is less favorable, losses will result. The Company's objective is to ensure that sufficient insurance contract liabilities have been set up to cover these obligations.

The following risk factors are components of insurance risk:

- Mortality risk - is the risk that death claims are different than assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from any combination of weak underwriting, anti-selection by policyholders or agents, improper claims adjudication and short-term excess mortality in the COVID environment.
- Lapse risk - is the risk that withdrawals and lapse rates are different than assumed. Lapses that are higher than assumed are often detrimental to profit, especially if they occur prior to recovering costs to issue a policy. Lapses that are lower than assumed can also reduce profits on policies that have generous interest rate guarantees or on policies where the increasing cost of insurance benefits exceeds the level contractual charges.
- Expense risk - is the risk that maintenance expense levels will be higher than assumed. This can arise from an increase in the unit costs or an increase in expense inflation relating to economic conditions.

The Company manages insurance risk at an enterprise-wide level by establishing Board-approved policies and guidelines for product development and product pricing, which require

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

that all material risks be provided for at the time of product design and pricing of new products. Additionally, experience studies are performed annually, the outcome of which is used to update the valuation of insurance contract liabilities and the pricing of new and existing products.

The Company also uses reinsurance to transfer risks and limit the amount of loss on any one policy as specified in its Reinsurance Risk Management Policy. In 2021, the Company entered into a coinsurance agreement with its parent company Foresters Financial to reinsure a block of in-force non participating business. Refer to note 12 and note 19 for additional details.

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account, as discussed in note 10d. Annually, as part of Financial Condition Testing ("FCT"), the Company measures the effects of large and sustained adverse movements in insurance risk factors on the calculation of insurance contract liabilities. Sensitivities to changes in actuarial assumptions are provided in note 10d.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company's liquidity requirements are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields to ensure consistency between policyholder requirements and the yield of assets.

Operating and strategic liquidity levels are managed against established guidelines. The Company ensures adequate liquidity on a day-to-day operational basis by maintaining a specified minimum level of highly liquid assets (defined as all short-term investments issued by major banks and the governments of Canada). Strategic liquidity is measured under a single stress scenario. The Company's target liquidity ratio under the single scenario is 200.0%, a ratio that would more than support the highest claims-paying ratings for the Company, in addition to providing a significant margin above management's expected liquidity requirements. The Company's liquidity ratio is defined as allowable liquid assets, including the available room on a corporate line of credit. The available assets are reduced to reflect securities pledged to support derivatives activities. The available assets are divided by the risk-adjusted liquidity of liabilities to determine the liquidity ratio. The risk-adjusted liquidity of liabilities is calculated by assessing the probability of a policyholder surrendering a policy for cash under the single scenario, adjusted for the ability of the policyholder to surrender under its contractual provisions. Effective with the Q4 2021 liquidity reporting, Foresters has adopted the latest S&P liquidity model for its calculations. The updated model did not result in a material change to Foresters liquidity ratio.

The following chart shows the Company's strategic liquidity ratio:

	Liquidity Ratio	
	2022	2021
Allowable liquid assets	\$ 639,345	\$ 848,909
Risk-adjusted liquidity of liabilities	144,278	209,194
Liquidity ratio	443.13 %	405.80 %

Based on the Company's historical cash flows and current financial performance, management believes that the cash flow from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

Contractual maturities

The contractual maturities of the Company's significant financial assets and liabilities, insurance contract liabilities, investment contract liabilities and net investments for account of segregated fund unit holders as at December 31 are shown in the following table.

	On demand or within 1 year or less	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
2022				
Cash and short-term securities	40,842	—	—	40,842
Bonds	3,516	43,496	574,133	621,145
Reinsurance assets	(41,166)	(63,467)	768,978	664,345
Amounts due from reinsurer	35,726	—	—	35,726
Insurance contract liabilities	15,171	(34,603)	(1,069,627)	(1,089,059)
Investment contract liabilities	(14,071)	—	—	(14,071)
Benefits payable and provision for unreported claims	(63,640)	—	—	(63,640)
Due to reinsurers	(35,068)	—	—	(35,068)
Net investments for account of segregated fund unit holders	13,032	—	—	13,032
Liabilities for account of segregated fund unit holders	(13,032)	—	—	(13,032)
Total	(58,690)	(54,574)	273,484	160,220
	On demand or within 1 year or less	2-5 years	Over 5 years	Total
	\$	\$	\$	\$
2021				
Cash and short-term securities	28,826	—	—	28,826
Bonds	10,158	90,397	746,411	846,966
Reinsurance assets	(62,398)	(128,323)	958,801	768,080
Amounts due from reinsurer	27,205	—	—	27,205
Insurance contract liabilities	16,141	(36,096)	(1,356,193)	(1,376,148)
Investment contract liabilities	(14,353)	—	—	(14,353)
Benefits payable and provision for unreported claims	(55,161)	—	—	(55,161)
Due to reinsurers	(92,512)	—	—	(92,512)
Net investments for account of segregated fund unit holders	15,349	—	—	15,349
Liabilities for account of segregated fund unit holders	(15,349)	—	—	(15,349)
Total	(142,094)	(74,022)	349,019	132,903

Almost all investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is, therefore, the current statement of financial position date and the surrender amount would be approximately equal to the liability shown on the current statement of financial position. The cash flows are shown in the "on demand or within 1 year or less" column.

Investment contract liabilities for the account of segregated fund unit holders are payable or transferable on demand. The offsetting net investments for the account of segregated fund unit holders is shown on the same basis as these assets would be liquidated when necessary to settle the liability. These cash flows are shown in the "On demand or within 1 year or less" column.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

Actual maturities for bonds may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Both contractual and operating lease commitments are disclosed in note 20.

9. OTHER LIABILITIES

Other liabilities are comprised of the following:

	2022	2021
	\$	\$
Accounts payable and accrued liabilities	32,160	25,253
Demutualization benefits payable	2,437	2,441
Payroll, other compensation and benefits	1,622	1,743
Other liabilities	4,717	4,775
	<u>40,936</u>	<u>34,212</u>

The carrying value of these liabilities approximates their fair value. Within 12 months from the reporting date, \$36,611 (2021: \$29,844) will be realized. Included in Accounts payable and accrued liabilities is \$6,274 (2021: \$6,044) owing to Foresters Financial (note 19).

10. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

a) Nature and composition of insurance contract liabilities and related reinsurance assets

Insurance contract liabilities include life, health, and annuity lines of business. Insurance contract liabilities have been calculated using CALM and are reported gross of ceded reinsurance which is recorded as Reinsurance assets. CALM requires assumptions to be made about future cash flows; thus, there is risk that actual results will vary from those estimates. The risk varies in proportion to the length of the estimation period and the potential volatility of each assumption. To recognize uncertainty in establishing these estimates and to allow for possible deviation in experience, the Appointed Actuary is required to include a margin in each assumption, which has the effect of increasing the insurance contract liabilities. A range of allowable margins is prescribed by the Canadian Institute of Actuaries ("CIA") Standards of Practice. For interest rate risk, the Appointed Actuary projects multiple cash flow scenarios for each material product line in order to determine the appropriate margin for adverse deviation. In general, in setting these margins for adverse deviation, the Appointed Actuary has aimed for a level of conservatism in keeping with the risk profile of the Company and its operations. With the passage of time, and resulting reduction in estimation risk, these margins will be included in future income to the extent they are not required to cover adverse experience. If estimates of future conditions change throughout the life of a policy, the effect of those changes is recognized in income immediately.

The Company limits the amount of loss on any one policy by reinsuring certain levels of risk with third party reinsurers. Maximum limits have been established for the retention of risks associated with life insurance policies by line of business. The Company's gross exposure to insurance contract liabilities is partially offset by reinsurance assets on account of certain risks ceded to reinsurers.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Reconciliation of changes in insurance contract liabilities

	2022		2021	
	Gross \$	Net \$	Gross \$	Net \$
Beginning of year	1,376,148	608,068	1,302,071	913,951
New business	(54,074)	(88,599)	(22,042)	(40,751)
Refinement of actuarial assumptions	43,083	8,467	157,935	66,993
Refinement of actuarial methods and models	370	142	(1,006)	(4,240)
Change in inforce due to changes in interest rates	(215,700)	(92,800)	(111,540)	(90,889)
Change in inforce contractual cashflows	2,188	624	—	—
Change in inforce from other movements	(62,956)	(11,188)	50,730	47,669
Reinsurance transaction (note 19)	—	—	—	(284,665)
Change in contract liability	(287,089)	(183,354)	74,077	(305,883)
End of year	1,089,059	424,714	1,376,148	608,068

The decrease due to change in interest rates in 2022 is a result of risk free interest rate improvements over the year on the long end.

The change in inforce from other movements consists of inforce business movement and other market movements such as credit spread movements and trading activities.

Changes resulting from refinements of actuarial assumptions and methods and models in the above tables are shown in more detail below.

	2022		2021	
	Gross \$	Net \$	Gross \$	Net \$
Refinement of assumptions:				
Lapse assumptions for recent experience	34,591	3,340	14,154	(1,922)
Updated inflation assumptions	10,055	6,557	—	—
Investment expense assumptions	2,754	724	3,013	2,027
Mortality assumptions for recent experience	152	1,777	146,465	72,412
Maintenance expense assumptions	—	—	(5,601)	(5,432)
Updated future asset returns	(817)	(172)	—	—
Dividend assumptions	(3,652)	(3,759)	(96)	(92)
	43,083	8,467	157,935	66,993
Refinement of methods and models:				
Model improvements	370	142	(8,109)	(8,834)
Regulation and standard changes	—	—	7,103	4,594
	370	142	(1,006)	(4,240)

The presentation above is consistent with the method used in valuing actuarial liabilities. Refinements of methods and models include reinsurance and other model enhancements.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

Asset default provisions made for anticipated future losses of principal and interest on investments and included as a component of actuarial liabilities are shown in the table below:

	2022	2021
	\$	\$
Balance, beginning of year *	15,056	40,839
Net strengthening (release) of provision **	(428)	(25,783)
Balance, end of year *	14,628	15,056

* Provisions are net of losses expected to be passed-through via credited interest rates and dividends.

** The provision change in 2021 is significant due to the impact from internal reinsurance.

c) Composition of assets supporting liabilities and surplus

The Company segments its business taking into account the different liability profiles of its products. Based on these profiles, the Company has invested in fixed income securities and equities with characteristics that closely match the characteristics of the related liability.

The fair value of insurance contract liabilities is determined by reference to the assets supporting these liabilities. Therefore, changes in the fair value of insurance contract liabilities primarily offset changes in the fair value of the invested assets supporting these liabilities.

The following charts show the details of assets supporting liabilities and surplus by segment:

December 31, 2022						
	Cash and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
	\$	\$	\$	\$	\$	\$
Insurance	—	380,629	44,830	52,950	723,833	1,202,242
Surplus	40,842	240,516	21,902	37,464	12,251	352,975
	40,842	621,145	66,732	90,414	736,084	1,555,217

December 31, 2021						
	Cash and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
	\$	\$	\$	\$	\$	\$
Insurance	—	541,141	61,477	45,034	803,117	1,450,769
Surplus	28,826	305,825	34,467	26,831	33,816	429,765
	28,826	846,966	95,944	71,865	836,933	1,880,534

*Other invested assets include loans to policy holders, limited partnership investments and segregated fund seed money.

d) Assumptions

The nature and method of determining the more significant assumptions made by the Company in valuing its insurance contract liabilities are described in the following paragraphs. These valuation assumptions are based on best estimates of future experience, together with a margin for adverse deviation. Actual experience is monitored to assess whether the assumptions remain appropriate. Best estimates are reviewed at least annually and are changed as warranted. Margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best estimate assumptions and provide

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

reasonable assurance that policy liabilities cover a range of possible outcomes. Margins for adverse deviations are reviewed periodically for continued appropriateness.

Mortality and morbidity

Mortality relates to the occurrence of death. Mortality is a key assumption for life insurance and certain forms of annuities. Mortality assumptions are differentiated by factors, such as gender, underwriting class, policy type and geographic market.

Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity is a key assumption for long-term care insurance, disability insurance, critical illness and other forms of health benefits. Morbidity assumptions are established for each type of morbidity risk and geographic market.

Mortality and morbidity assumptions are based on the Company's internal experience, as well as industry past and emerging experience. Although the pattern of claims and benefit payments may be close to that indicated by past experience, some deviation in that pattern is probable as seen by the impact of COVID-19 and excess mortality experienced. Annual studies are performed to examine mortality and morbidity experience where the Company's actual experience is compared to both its expected assumptions and industry-expected values to confirm that appropriate assumptions are being made about the projected benefit patterns. Consistent with actuarial standards projected improvements in mortality experience are reflected, where appropriate.

Lapse rates

Policyholders may either surrender their policies for cash value, where applicable or allow their policies to lapse by choosing to discontinue payment of their premiums. The Company performs annual studies to review lapse and surrender experience, and bases its estimate of future lapse rates on previous experience for each block of business.

Investment returns

The Company segments assets supporting insurance contract liabilities by line of business. The Company establishes investment strategies for each liability segment. The computation of actuarial liabilities takes into account projected cash flows or net investment income on assets supporting these liabilities, as well as income expected to be earned (or foregone) on reinvestments (or financing) of mismatched cash flows. Uncertainties exist with respect to projections of risk-free interest rates, credit spreads and the magnitude of credit losses resulting from asset depreciation. The Company accounts for such uncertainties by incorporating provisions for credit losses into projections of investment income (in addition to the allowances for impairment applied as direct reductions to the carrying values of invested assets).

Maintenance expenses

Amounts are included in actuarial liabilities to provide for the costs of administering in-force policies, including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of policy statements, and related indirect expenses and overhead. Annual expense studies are conducted to assess current cost structure by product and region. The process of forecasting expenses requires estimates to be made of factors, such as inflation, salary rate increases, productivity changes, business volumes and indirect tax rates. Estimates of future policy maintenance expenses are based on the Company's experience.

Dividends

Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

future to reflect the experience of the respective participating accounts, consistent with the annual Board-approved dividend policy.

The following table shows the decrease in after-tax net income which would result if there were changes in key assumptions relating to insurance contract liabilities net of reinsurance:

	Change	2022 \$	2021 \$
Mortality rates:			
Life products	+ 2%	(2,312)	(1,212)
Annuity products	- 2%	(628)	(724)
Lapse rates	10% Adverse	(10,323)	(5,041)
Maintenance expense levels	+ 10%	(2,910)	(1,910)

The impact from assumption shock is mainly driven by new business growth during the year. As new business is written, its reserve becomes relatively more sensitive to assumption changes.

11. INVESTMENT CONTRACT LIABILITIES

Reconciliation of changes in investment contract liabilities

The reconciliation of changes in investment contract liabilities during the year is shown in the table below:

	2022 \$	2021 \$
Balance, beginning of year	14,353	14,720
Deposits received	172	198
Surrenders and withdrawals	(683)	(909)
Interest credited and others	229	344
Balance, end of year	14,071	14,353

12. CAPITAL MANAGEMENT

a) Capital

Upon conversion to a stock company on April 2, 2008, the Company issued 50,000,000 common shares to Foresters Financial for proceeds of \$50 million.

The authorized capital of the Company consists of an unlimited number of common shares without nominal or par value.

The following table shows the number of outstanding shares:

	2022 \$	2021 \$
50,000,000 common shares, no par value	50,000	50,000

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

Foresters Financial contributed \$50,000 in 2022 (2021: \$85,000) to the Company in the form of contributed surplus.

The Company paid a dividend of \$nil (2021: \$85,000) to Foresters Financial during the year.

b) Capital management

The Company's capital base consists of share capital, contributed surplus, retained earnings and AOCI as shown on the consolidated statement of changes in equity.

The Company's objective with respect to capital management is to maintain a consistently strong capital position, to comply with Canadian solvency requirements and to build on the Company's value by taking advantage of business and investment opportunities as they arise.

In accordance with the Board-approved Capital Management Policy, the Company has established internal capital targets for capital adequacy. These targets exceed the minimum statutory capital requirements in Canada. The Company projects its capital requirements over a five-year period. On a quarterly basis, management monitors performance against internal capital targets and its capital plans, and initiates action when appropriate.

Annually, as part of FCT, the Company assesses the strength of its capital position under plausible adverse scenarios, including mitigating management actions. These scenarios reflect the Company's business plans and risk profile.

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test ("LICAT"). OSFI requires life insurance companies to maintain a minimum Core ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total Capital.

The LICAT ratio as at December 31 in the following table was above the levels that would require any regulatory or corrective action.

		2022	2021
Available capital (A+B)	\$	280,805	\$ 298,024
Tier 1 Capital	A	213,975	262,494
Tier 2 Capital	B	66,830	35,530
Surplus allowance and eligible deposits	C	67,182	46,803
Base solvency buffer	D	229,137	181,577
Total ratio (%)			
([A+B+C] / D) x 100		151.87 %	189.91 %

Other capital management considerations

On October 1, 2021, the Company entered into a coinsurance agreement with its parent company, Foresters Financial, to reinsure a block of in-force non participating business with a 100% quota share. The agreement has an unlimited term but may be amended or terminated by both parties by mutual consent at any time. Under the terms of the agreement, the Company will maintain responsibility for servicing the policies. The

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

transaction was structured such that the Company ceded policyholder contract liabilities and transferred related invested assets backing these liabilities.

Refer to note 19 for additional details on the transactions recorded during the year.

13. PREMIUMS

The following table provides a breakdown of gross premiums and premiums ceded under reinsurance arrangements by line of business:

	2022			2021		
	Gross	Ceded	Net	Gross	Ceded	Net
	\$	\$	\$	\$	\$	\$
Life and health	285,510	(230,836)	54,674	266,946	(345,633)	(78,687)
Annuities	956	—	956	1,083	—	1,083
Total	286,466	(230,836)	55,630	268,029	(345,633)	(77,604)

Included in ceded premiums is an amount of \$165,218 (2021: \$283,497) for a reinsurance transaction entered into with the Company's parent company Foresters Financial (note 19).

14. FEE REVENUE AND OTHER OPERATING INCOME

Fee revenue and other operating income were comprised of the following:

	2022	2021
	\$	\$
Management fees on segregated fund assets	149	142
Other operating income	1,498	1,502
Total other income	1,647	1,644

Other operating income included \$1,500 of earn-out income (2021: \$1,500) from achieving a revenue target as part of the sale of Foresters Asset Management Inc. ("FAM") in 2019.

15. BENEFITS

The following table provides a breakdown of gross and ceded policyholder benefits and payments by line of business:

	2022			2021		
	Gross	Ceded	Net	Gross	Ceded	Net
	\$	\$	\$	\$	\$	\$
Life and health	142,009	(126,828)	15,181	132,347	(67,778)	64,569
Annuities	39,743	(462)	39,281	40,029	(505)	39,524
	181,752	(127,290)	54,462	172,376	(68,283)	104,093

Included in ceded benefits is \$63,794 (2021: \$15,944) for a reinsurance transaction entered into with the Company's parent company Foresters Financial (note 19).

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

16. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2022	2021
	\$	\$
Employee benefits:		
Salaries, benefits and other payroll remittances	720	1,456
Employee benefit expenses (note 6)	13	11
	733	1,467
Management fees (note 19)	32,591	29,622
Service fees (note 19)	14,218	15,472
Premium tax	6,936	6,536
Technology related fees	3,244	5,449
Software costs expensed	1,640	1,371
Professional fees and expenses	1,561	1,089
Depreciation and amortization of property, equipment and intangibles	1,391	1,082
Other expenses	2,611	3,840
Total operating expenses	64,925	65,928

The Company recovered commissions and operating expenses from reinsurers in the amount of \$7,916 (2021: \$5,104) and \$18,550 (2021: paid \$77,594 including an initial allowance paid of \$83,749) (note 19) due to the reinsurance transaction described in note 12. The net balance is recorded in ceded commissions and operating expenses on the statement of comprehensive income (loss).

17. INCOME TAXES

a) Income tax expenses

Current and deferred taxes are included in income taxes on the consolidated statement of comprehensive income (loss) as follows:

	2022	2021
	\$	\$
Current income tax expense:	7,557	(18,241)
Deferred income tax expense:		
Relating to the origination and reversal of temporary differences	(17,108)	(11,680)
Change in unrecognized deductible temporary differences	1,130	8,872
Adjustments for prior periods	(3,327)	294
	(19,305)	(2,514)
Total income taxes	(11,748)	(20,755)

Cash taxes paid in 2022 were \$1,286 (2021: \$28,369). Cash taxes received in 2022 were \$25,781 including interest of \$26 (2021: \$227 including interest of \$1).

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Income taxes included in OCI

Other comprehensive income (loss) is presented net of income taxes. The following income tax recovery (expense) amounts were included in each component of OCI:

	2022	2021
	\$	\$
Income tax recovery (expense) on net change in unrealized gains (losses) on available-for-sale assets	12,344	783
Income tax recovery (expense) on the reclassification of realized gains (losses) on available-for-sale assets	(3,378)	559
Income tax recovery (expense) on net actuarial gains (losses) on employee benefit plans	(50)	(15)
	<u>8,916</u>	<u>1,327</u>

c) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates to income before taxes for the following reasons:

	2022		2021	
	\$	%	\$	%
Total net income (loss) for the year	(15,923)		(86,099)	
Total income tax expense (recovery)	(11,748)		(20,755)	
Income (Loss) before income taxes	<u>(27,671)</u>		<u>(106,854)</u>	
Combined federal and provincial statutory income tax rate for the current year	(7,308)	26.4	(27,473)	25.7
Capital taxes	—	—	262	(0.2)
Amounts not subject to tax	(1,220)	4.4	(1,258)	1.2
Reduction in tax rate	—	—	—	—
Tax rate adjustment for loss carryback	(37)	0.1	(1,465)	1.4
Tax adjustments for prior periods	(4,313)	15.6	(166)	0.2
Other adjustments related to differences in tax rates	—	—	894	(0.8)
Unrecognized deferred taxes	1,130	(4.1)	8,872	(8.3)
Other taxes	—	—	(421)	0.4
Effective tax rate	<u>(11,748)</u>	<u>42.5</u>	<u>(20,755)</u>	<u>19.4</u>

d) Deferred income taxes

In certain instances, the tax basis of assets and liabilities differs from the carrying amount in the consolidated financial statements. These differences will give rise to deferred income tax assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

The following chart shows the underlying assets and liabilities corresponding to net deferred income tax assets and liabilities:

	2022			2021		
	Asset	Liability	Net	Asset	Liability	Net
	\$	\$	\$	\$	\$	\$
Bonds	—	(91)	(91)	—	(131)	(131)
Property and equipment	—	(887)	(887)	—	(591)	(591)
Other invested assets	—	(4,072)	(4,072)	—	(3,036)	(3,036)
Employee benefit obligations	79	—	79	115	—	115
Insurance contract liabilities	3,787	—	3,787	3,610	(3,573)	37
Other liabilities	395	—	395	56	(927)	(871)
Tax loss carryforward	15,567	—	15,567	—	—	—
Recognized deferred tax assets	19,828	(5,050)	14,778	3,781	(8,258)	(4,477)

The net movement in the deferred tax account is as follows:

	2022	2021
	\$	\$
Beginning of year	(4,477)	(7,005)
Origination and reversal of temporary differences	14,486	11,091
Change in unrecognized deductible temporary differences	—	(8,872)
Adjustments for prior periods	4,819	294
Credits (charges) included in OCI	(50)	15
End of year	14,778	(4,477)

Deferred income tax assets and liabilities are recognized for unclaimed deductions carried forward to the extent that the realization of the future tax benefit through future taxable profits is probable.

There were unclaimed tax deductions in Canada amounting to \$4,449 (2021: \$5,015) which have not been recognized in these consolidated financial statements as it is not probable that future taxable income will be available against which to apply these deductions. These unclaimed deductions do not expire.

There were unclaimed tax deductions and tax credits amounting to \$9,183 (2021: \$7,487) that have not been recognized in the consolidated financial statements as it is not probable that future taxable income will be available against which to apply these deductions. These unclaimed tax credits expire beginning in 2032 through 2042.

18. SEGMENTED INFORMATION

The Company has one reportable operating segment, insurance, which reflect the Company's internal management structure and basis for internal financial reporting. Each operating segment is organized to meet the needs of local markets and is responsible for developing its own products. The primary sources of revenue from the reportable operating segment are:

- Premium income derived from life insurance, accident and sickness insurance, and group annuities (note 13),

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

- Net investment income (note 3), and

Segment profits are based on internal management statements and are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The Company has a widely diversified policyholder base and, therefore, is not reliant on any individual customers.

19. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Foresters Financial. Effective April 2, 2008, all the employees of the Company became employees of Foresters Financial. Salaries, benefits and related employee future benefit obligations for employees of Foresters Financial dedicated to the Company are paid by the Company. Foresters Financial provides various support functions in the normal course of business, including human resources, internal audit, legal and compliance, investment management and actuarial services. The cost of these support function services to the Company is charged based on usage. The charge to the Company by Foresters Financial for the support functions in 2022 was \$19,476 (2021: \$16,722) and is included in management fees (note 16).

Compensation of key management personnel

The Company's key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the organization. Key management personnel comprise directors and executive officers of the Company.

The remuneration of key management personnel was as follows:

	2022	2021
	\$	\$
Salaries and other short-term employee benefits	3,102	4,511
Termination benefits	558	217
Other long-term benefits	455	348
Post-employment benefits	175	331
Total compensation of key management personnel	4,290	5,407

Reinsurance transaction

On October 1, 2021, the Company entered into a coinsurance agreement with its parent company, Foresters Financial, to reinsure a block of in-force non participating business with a 100% quota share. The Company paid an initial ceding allowance of \$83,749, included in ceded commissions and operating expenses, and transferred liabilities and supporting assets of \$238,638. In 2022, the Company recorded a pre-tax loss of \$116,170 (2021: \$62,302), which includes a decrease in reinsurance assets of \$34,422 (2021: increase in reinsurance assets of \$284,665) (note 10), ceded premiums of \$165,218 (2021: \$283,497) (note 13), ceded benefits of \$63,794 (2021: \$15,944) and ceded commissions and operating expenses of \$19,675 (2021: \$(79,414)).

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

At December 31, 2022, the amount owing to Foresters Financial was \$34,206 (2021: \$93,986). \$27,932 (2021: \$87,942) was included in Due to reinsurers and \$6,274 (2021: \$6,044) was included in Other Liabilities (note 9).

Seed money in segregated funds segregated funds

The Company manages and administers segregated funds. As manager, the Company is responsible for the provision of all general management and administrative services required by the segregated funds in their day-to-day operations, including providing or arranging for the provision of investment advice, bookkeeping, recordkeeping and other administrative services. Seed Money units with a value of \$2,687 are held by the Company in the Macarthur Economic Growth Fund.

Other related party transactions

On October 1, 2020, the Company's Parent, Foresters Financial, acquired 100% of the common shares of Canada Protection Plan Inc. ("CPP") and TPA Outsourcing Inc. ("TPA"). CPP is a licensed insurance brokerage principally involved in the development, sales and marketing of insurance products and earns commissions from the Company. TPA performed policy administration and information processing functions on behalf of the Company. The Company had a pre-existing relationship with both CPP and TPA prior to the date of acquisition.

All outstanding balances with these related parties are to be settled in cash within two months of the reporting date. None of the balances is secured. No expense has been recognized in the current year for bad or doubtful debts in respect of amounts owed by related parties. No guarantees have been given or received.

On January 1, 2021, Foresters Financial completed the amalgamation of its subsidiaries 2778387 Ontario Inc., Canada Protection Plan Inc. and TPA Outsourcing Inc. The amalgamated entity will operate as Canada Protection Plan Inc. and is a wholly owned subsidiary of Foresters Financial.

In 2022, CPP charged the Company \$41,261 (2021: \$48,472) in commissions, \$13,966 (2021: \$15,119) for service fees (note 16) and \$12,900 (2021: \$12,900) in management fees (note 16). At December 31, 2022, the amount owing to (from) CPP was \$3,975 (2021: \$(463)).

20. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

a) Policy dividend practices pursuant to assumption reinsurance transactions

i) MetLife Canada

On October 30, 2009, the Company acquired insurance policies, annuities and certificates from MetLife Canada pursuant to an assumption reinsurance transaction and agreed to continue the dividend practices of MetLife Canada for the assumed policies.

On April 7, 2000, Metropolitan Life Insurance Company ("Metropolitan") converted from a mutual life insurance company to a stock company and became a wholly owned subsidiary of MetLife, Inc. a Delaware corporation. The conversion was pursuant to an order by the New York Superintendent of Insurance approving Metropolitan's plan of reorganization.

In order to satisfy the New York State Department of Financial Services ("NYDFS") that participating policyholders of Metropolitan would be treated fairly after demutualization, the

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

Canadian branch of Metropolitan (the "Metropolitan Branch") committed to paying dividends to its individual participating policyholders in accordance with the following objectives:

- For ordinary and industrial participating life insurance, dividend mortality was set at the 2000 dividend scale level, dividend expenses were set at the 2000 dividend scale level indexed with inflation and dividend interest rates are adjusted based on a 10-year rolling average of the 10-year Canada bond rate less an adjustment for taxes.
- Commitments for the individual health insurance and individual annuities lines of business are not expected to produce dividends.

These dividend-paying policies were assumed by MetLife Canada on January 2, 2006 from the Metropolitan Branch on domestication and subsequently, by the Company on October 30, 2009. Although these dividend-paying policies do not fall within the definition of "participating policies" in the Act and were not considered participating policies of MetLife Canada, MetLife Canada agreed with OSFI at the time of domestication to honour the dividend commitment made by the Metropolitan Branch to the New York State Insurance Department ("NYSID") with respect to these dividend-paying policies. These policies will also not be considered to be participating policies by the Company under the Act, but the Company has in turn agreed to follow the MetLife Canada dividend paying-policy and practices with respect to the assumed policies.

ii) Prudential

On July 31, 2006, the Company acquired insurance policies from Prudential Insurance Company of America ("Prudential") pursuant to an assumption reinsurance transaction and agreed to continue the dividend practices of Prudential for the assumed policies.

On December 18, 2001, Prudential converted from a mutual insurance company to a stock company. Under demutualization, a Canadian closed block was established with a transfer of specific assets to back the Canadian liabilities of the life insurance policies. Dividends were then based on the experience of this closed block.

In view of the exposure that the emerging experience would fluctuate as the size of the Canadian closed block continued to decline, Prudential applied to the New Jersey regulators in early 2006 to terminate the Canadian closed block. In order to protect the policyholders' reasonable dividend expectation, a three-factor formula was developed for calculating future dividend. The factors reflect:

- industry mortality experience with annual mortality improvements guaranteed for each of the next 8 years;
- the interest earned on the fund graded over the next 23 years into a rolling average of prevailing 10 year Government of Canada bond rates;
- a fixed level of expense

The New Jersey regulator has accepted the change on the condition that the policyholders will have their reasonable dividend expectations protected by the new dividend formula. Although these policies will not be considered to be participating policies by the Company under the Act, the Company has in turn agreed to follow the Prudential dividend policy and practices with respect to the assumed policies.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

	Policy Liabilities of Assumed Policies - Prudential					
	2022			2021		
	Dividend-Paying	Non-Dividend-Paying	Total	Dividend-Paying	Non-Dividend-Paying	Total
	\$	\$	\$	\$	\$	\$
Individual Life	72,025	—	72,025	94,733	—	94,733
Total	72,025	—	72,025	94,733	—	94,733

b) In the normal course of business, the Company enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment. The Company's contractual obligations and commitments were as follows:

	December 31, 2022			
	1 year or less	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
Investment commitment	—	—	—	—
Total contractual obligations	—	—	—	—

	December 31, 2021			
	1 year or less	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
Investment commitment	54,110	—	—	54,110
Total contractual obligations	54,110	—	—	54,110

The Company is a guarantor on certain annual management fee requirements to a third party. Management has assessed that no financial obligation exists as the likelihood of not reaching the pre-determined threshold is low.

21. CONTINGENT LIABILITIES

From time to time in connection with its operations, the Company and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. Based on information presently known, it is not expected that existing legal actions, either individually or in the aggregate, will have a material adverse effect on the Company's consolidated statement of financial position.

Notes to consolidated financial statements

For the year ended December 31, 2022 (amounts in thousands of Canadian dollars except where otherwise stated)

22. PRINCIPAL SUBSIDIARIES

The table below provides information with respect to the Company's subsidiaries whose financial statements have been consolidated in these financial statements:

Name	Country of incorporation	Primary business operation	Ownership and control interest (%)	
			December 31, 2022	December 31, 2021
Genisystems.ca Services Inc.	Canada	Insurance services	100	100

23. COMPARATIVE INFORMATION

Certain comparative amounts have been restated or re-presented to conform to the current year's presentation.

789 Don Mills Road
Toronto, ON Canada
M3C 1T9

T 800 444 3043

foresters.com

Foresters 
Financial

Assuris

Foresters Life Insurance Company is a member of Assuris (Canadian Life & Health Insurance Compensation Corporation). Assuris administers the consumer protection plan that provides protection to the policyholders of member companies. Policyholders and prospective policyholders are invited to visit their website at <http://www.assuris.ca> or read the Assuris brochure for details and limitations of coverage. 414857 CAN (04/23)